SGI CANADA INSURANCE SERVICES LTD.

ANNUAL REPORT
1999

About SGI CANADA Insurance Services Ltd. (SCISL)

Saskatchewan Government Insurance (SGI) has been insuring the things Saskatchewan people value most for more than 50 years. In 1984, the Corporation split into two entities: the Auto Fund, which handles compulsory vehicle insurance and licensing, and SGI CANADA, which sells property and casualty insurance products (home, commercial, agro, etc.) and competes in the market with other companies.

In the early 1990s, the Corporation decided to expand into other provinces – a sound business move, as expansion offered improved protection for customers by spreading the geographical base of risk. To assist expansion, SGI CANADA Insurance Services Ltd. (SCISL) was formed, and was incorporated under the *Saskatchewan Business Corporation Act* in 1990. SCISL is a share-capital company which sells property and casualty insurance products outside Saskatchewan.

SCISL and SGI CANADA are separate operations which share the same head office in Regina. Since 1995, SCISL has also run an operational base out of Winnipeg. SCISL underwrites business outside Saskatchewan, while SGI CANADA sells insurance products within the province. SCISL began writing business in Manitoba in September 1993 and in Ontario in November 1995.

Board of Directors

Donald W. Cody, Chair
Mayor of Prince Albert
Prince Albert

J. Walter Bardua, Vice-Chair
Retired insurance professional
Nanaimo, B.C.

Joan F. D. Baldwin
Doctor
Regina

Joan D. Bellegarde
Director of Operations,
Touchwood File Hills
Qu'Appelle Tribal Council
Fort Qu'Appelle

Larry Fogg
President and CEO, SGI
Regina

William J. A. Heidt
Business owner
Kelowna, B.C.

Nancy E. Hopkins
Lawyer
Saskatoon

P. James Mills
Insurance broker
Elrose, Sask.

Dana C. Stutsky
Insurance adjuster
Saskatoon

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 2000

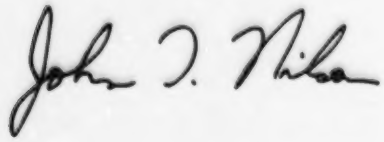
To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of SGI CANADA Insurance Services Limited for the year ended December 31, 1999. The financial statements have been audited by KPMG.

I have the honour to be, Madam,

Your obedient Servant,



Honourable John T. Nilson, Q.C.
Minister Responsible for Crown Investments Corporation

YEAR IN REVIEW - 1999

INTRODUCTION

SGI CANADA Insurance Services Ltd. (SCISL) had another profitable year in 1999, recording after-tax profits of $188,000.

Since SCISL's inception in 1993, the Company's operating strategy has been careful, controlled growth. This strategy has served SCISL well over the past six years, providing the Company with a solid foundation in Manitoba and Northwestern Ontario.

SCISL Brokers

Manitoba	40
Saskatchewan	10
Ontario	3

SCISL continued to grow in 1999, reaching $6.6 million in direct premiums written by year end - a 12% increase over 1998. This makes SCISL one of the top 15 general insurance companies in Manitoba in terms of total premiums written.

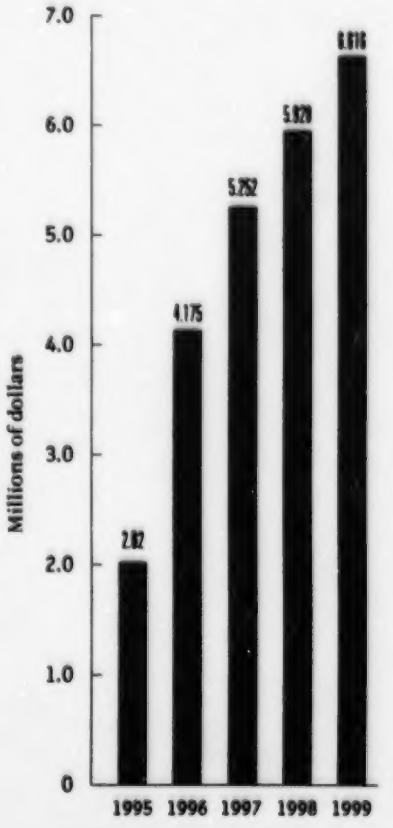
Four new brokers joined SCISL in 1999: two in the city of Winnipeg and two in rural Manitoba. This pushed the total number of SCISL brokers to 53.

SERVICE SURVEY OF BROKERS

SCISL's relationship with its existing brokers, as well as the establishment of new SCISL brokers, are two important priorities as the Company enters a new millennium. To that end, the Company conducted a major service survey of SCISL brokers in 1999 to find out what the Company is doing right, as well as to identify areas where the Company needs to improve.

The survey results were very positive, especially in categories which compared SCISL to the competition. For example, 100% of responding brokers indicated that SCISL was equal to or better than the competition in the areas of: (1) courtesy of underwriting staff; (2) product knowledge of Commercial Lines staff; and (3) the quality of training provided to brokers. In addition, 96% of responding brokers indicated that SCISL was equal to or better than the competition when it came to: (1) product knowledge of Personal Lines staff; (2) responsiveness to market conditions for Commercial Lines; and (3) telephone service. Moreover, 92% of responding brokers indicated that SCISL was equal to or better than the competition in the areas of: (1) competitiveness of Personal Lines coverages; (2) policy turnaround for Commercial Lines; and (3) responsiveness to market conditions for Personal Lines.

Growth in Direct Premiums Written



USING TECHNOLOGY TO SERVE BROKERS BETTER

Despite the positive survey results, SCISL has no intention of becoming complacent when it comes to serving its brokers and policyholders. In fact, the Company launched or expanded a number of projects aimed at service enhancement in 1999, and these projects will be built upon in the months and years ahead. Many of these projects involve the use of technology to serve brokers and policyholders better.

A good example of how SCISL is using technology to provide better service is the direct bill pilot project, implemented in the fall of 1999. Under direct bill, SGI CANADA sends policy documents directly to the insured, and the billing and collection of premium are the responsibility of the Corporation.

Direct bill was implemented to provide another service to brokers, as well as to facilitate further expansion by SCISL. Many brokers in Manitoba and Ontario are very interested in the products and services that SGI CANADA has to offer, and the introduction of direct bill makes the business relationship even more attractive. The direct bill program should be ready for additional brokers by late 2000.

Meanwhile, a Winnipeg-based SCISL brokerage joined SGI CANADA's Broker Interface project in late 1999, and more SCISL brokers are expected to join in 2000. Broker Interface allows SGI CANADA to download policy information into the computer systems of participating brokers.

Lastly, an e-mail service for SCISL brokers was launched as a pilot in early 1999 and expanded to all SCISL brokers in November of last year. As part of this service, brokers with Internet access can e-mail questions, revision requests and other information to the attention of SCISL personnel.

OUTLOOK

The focus for SCISL in 2000 will continue to be careful, controlled growth in Manitoba and Northwestern Ontario, with the Company looking to add brokers in specific areas where the Company is not presently represented.

Ensuring the quality of SCISL's book of business through diligent underwriting will also be a priority in 2000. The Company began to carefully review its book of business in 1999, and was rewarded with significantly better underwriting results at year end. SCISL anticipates this positive trend in underwriting will continue in 2000.

INTRODUCTION

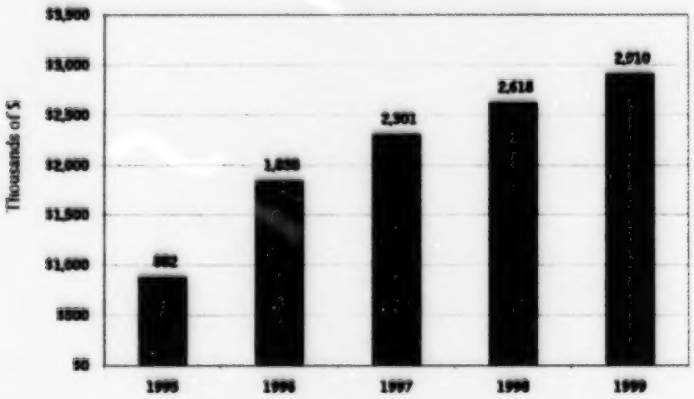
The information in this discussion and analysis should be read in conjunction with SGI CANADA Insurance Services Ltd.'s (the Corporation's) financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

The Corporation is a business corporation incorporated under the *Business Corporations Act* of Saskatchewan and is owned by three Saskatchewan government organizations: SGI CANADA, Saskatchewan Auto Fund and Crown Investments Corporation Industrial Interests Inc. The Company was formed in 1990 to serve as the expansion vehicle for SGI CANADA outside the Province of Saskatchewan.

OVERVIEW OF 1999

The 1999 net after-tax profit of $188,000 is down from last year's $402,000 after-tax profit. While underwriting results improved significantly, investment earnings were lower, which resulted in a lower net profit. The Corporation continued growing with an 11% increase in premium volumes.

Net Premiums Written



The Corporation completed the development of its insurance computer system in 1998 and in 1999 began developing several enhancements to improve the customer service it provides to brokers. The major development in 1999 was a direct bill system, which was implemented on a pilot project basis. Based on input from the pilot project brokers, the system will be refined and implemented with brokers on a voluntary basis.

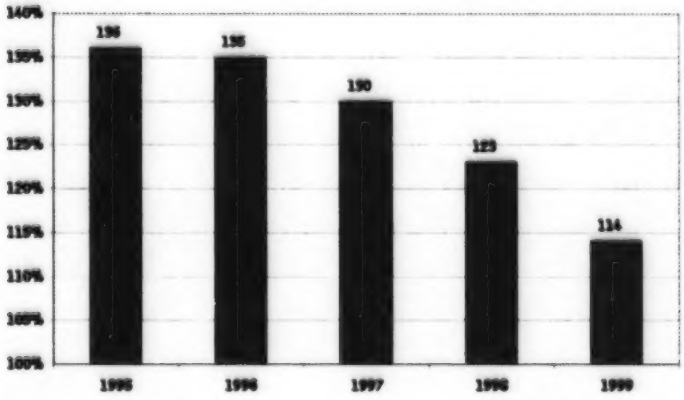
UNDERWRITING OPERATIONS

The Corporation follows the underwriting policies of its parent, SGI CANADA, which has been successfully selling property and casualty insurance in Saskatchewan for more than 50 years. The underwriting philosophy is to underwrite its products based on sound underwriting principles and provide outstanding customer service to its customers. Property policies are underwritten based on prior claims experience and the condition and replacement value of the property.

While still relatively new in the markets that it operates, strong underwriting service has been emphasized in attracting and retaining quality brokers. Claims customer service has also been emphasized, as this for the most part is the only contact with the insured. If claimants are happy with the service they receive, they will maintain their relationship with the Corporation. This is one of the ways the Corporation has successfully increased the size of its premium base.

Although to date the Corporation has not attained an underwriting profit, it continues to work towards this goal as its combined ratio (total claims and expenses relative to earned premium) continues to decrease. Both claim costs and expenses (commissions, premium taxes and administrative expenses) decreased in relation to the premium base. As the Corporation has gained experience in the new markets that it operates in, its claims loss experience has continually improved. While the premium base increased the last few years, administrative expenses have essentially been the same, which has also helped reduce the combined ratio.

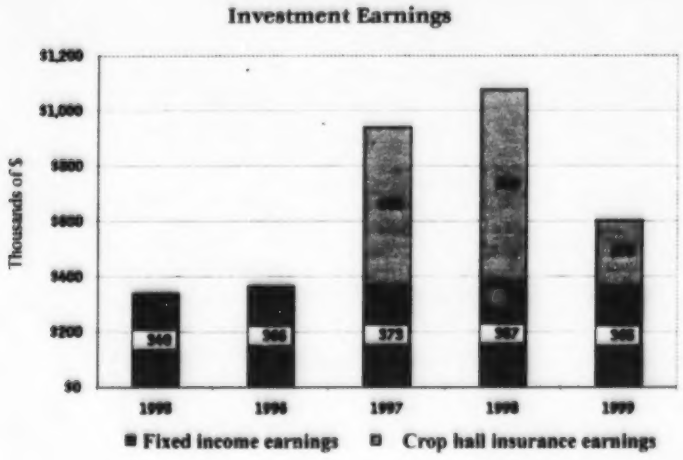
Combined Ratio



A factor affecting the underwriting profit is a conservative reinsurance policy, which results in a high percentage of the commercial business being reinsured. This business has higher exposure than the personal business and can be very volatile, but at the same time, has been profitable for the reinsurer, SGI CANADA. While this policy has adversely affected the underwriting profit, the Corporation is committed to not exposing itself to large losses. As the equity and premium base of the Corporation grows, more of the risk will be retained. Also, as premiums grow, administrative expenses relative to the premium base will decline as the Corporation realizes economies of scale.

INVESTMENT EARNINGS

Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the companies' equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations.



Investment earnings were lower in 1999 at $604,000, compared to 1998, when they were $1.1 million. Fixed income investment earnings were essentially the same, however the Corporation's equity earnings from its crop hail insurance investment were lower. The Corporation's share of earnings from the crop hail insurance investment was $239,000, compared to $689,000 last year.

REINSURANCE

Reinsurance is the process of passing part of a risk or risks from one insurance company to another insurance company (the reinsurer). Two of the key reasons for reinsuring are that it increases the insurance company's capacity to write business and it provides greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

Because the Corporation is still relatively new in the markets where it sells insurance and has a small capital base ($8.0 million), it reinsures a large portion of the business that it writes (1999 - 56%). The reinsurance program limits the liability of the Corporation to a maximum amount of $50,000 on any one loss, and $500,000 on any one catastrophic occurrence. SGI CANADA, the Corporation's parent, with a capital base of $113.0 million, is the main reinsurer for SCISL.

LIQUIDITY

Given the Corporation's conservative reinsurance program to protect against large losses and major catastrophes, and its conservative investment portfolio, the Corporation is confident there is sufficient cash to meet all financial obligations as they fall due.

RISK MANAGEMENT

The following issues and risks, among others, should be considered when evaluating the Corporation:

Catastrophe exposure
Property and casualty insurers are subject to losses arising from catastrophic events. To contain this risk, the Corporation purchases catastrophe reinsurance protection, which reduces the potential impact from major losses as a result of catastrophic events. The Corporation is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

Competition
The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. The Corporation emphasizes strong underwriting principles and is not willing to jeopardize these principles to obtain market share, which at times during the market cycle may result in reductions in premiums until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers and chartered banks.

Provision for unpaid claims
The Corporation maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported to the Corporation. These provisions are estimates and the ultimate payment on these claims may differ from the estimate.

Investment returns
The Corporation's profit is derived from the investment portfolio and therefore fluctuations in returns will affect the net profit for the year. The portfolio is split between fixed income securities (64%), which produce stable earnings, and the crop hail insurance investment (36%) with earnings that can change significantly from year to year.

Because of the significance of the investment made in the crop hail insurance business, the Corporation is actively involved at the Board level, as well as on committees of the Board. The Corporation has four of 11 seats on the Board of Directors as well as representatives on the Audit and Finance and Reinsurance committees of the Board. This allows the Corporation to be actively involved in the policy-making decisions of the hail company to ensure that its investment is adequately protected.

LOOKING FORWARD

The Corporation will continue with its plan of controlled growth by providing excellent customer service to brokers and claimants while maintaining sound underwriting principles. With a new computer system in place, growth should be accomplished with minimal increases to administrative expenses.

Responsibility for Financial Statements

The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

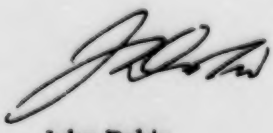
Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Larry Fogg
President



John Dobie
Vice President
Finance and Administration

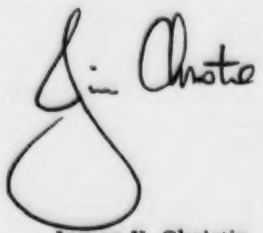
February 11, 2000

ACTUARY'S REPORT

To the Shareholders of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its statement of financial position at December 31, 1999, and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



February 11, 2000

James K. Christie
Fellow, Canadian Institute
of Actuaries

AUDITORS' REPORT

To the Shareholders of SGI CANADA Insurance Services Ltd.

We have examined the statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 1999, and the statements of operations and retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally-accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999, and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally-accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 11, 2000

STATEMENT OF FINANCIAL POSITION

December 31	1999	1998
Assets		
Cash and treasury bills (note 3)	$ 576,160	$ 877,283
Accounts receivable (note 4)	1,345,672	1,231,615
Deferred policy acquisition costs	963,744	823,523
Unpaid claims recoverable from reinsurers (notes 6 & 7)	1,174,318	1,059,667
Reinsurers' share of unearned premiums (note 6)	1,952,745	1,720,891
Investments (note 5)	8,992,479	8,294,751
	$ 15,005,118	$ 14,007,730
Liabilities		
Accounts payable	$ 239,957	$ 243,019
Premium taxes payable	134,941	122,361
Deferred income taxes	141,599	104,128
Amounts due to reinsurers (note 6)	210,045	302,440
Provision for unpaid claims (note 7)	2,090,916	1,707,086
Unearned reinsurance commissions	662,555	583,533
Unearned premiums	3,526,929	3,134,588
	7,006,942	6,197,155
Shareholders' equity		
Share capital (note 10)	6,000,100	6,000,100
Contributed surplus	1,000,000	1,000,000
Retained earnings	998,076	810,475
	7,998,176	7,810,575
	$ 15,005,118	$ 14,007,730

(see accompanying notes)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

year ended December 31	1999	1998
Premiums written	$ 2,909,741	$ 2,617,778
Premiums earned (note 6)	**$ 2,749,253**	$ 2,468,540
Claims incurred (note 6)	1,852,439	1,696,104
Commissions and premium taxes (note 6)	834,235	918,317
Administrative expenses (note 6)	441,499	426,868
Total claims and expenses	3,128,173	3,041,289
Underwriting loss	(378,920)	(572,749)
Investment earnings (note 8)	603,992	1,076,228
Net profit before income taxes	225,072	503,479
Deferred income taxes (note 9)	37,471	100,980
Net profit	187,601	402,499
Retained earnings, beginning of year	810,475	407,976
Retained earnings, end of year	$ 998,076	$ 810,475

(see accompanying notes)

Statement of Cash Flows

year ended December 31	1999	1998
Cash provided by (used for) operating activities		
Net profit	$ 187,601	$ 402,499
Non-cash items:		
Amortization of bond premium	77,187	54,421
Realized gain on disposal of investments	(9,529)	(15,031)
Income from equity investment	(238,868)	(688,929)
Change in non-cash operating items:		
Accounts receivable	(114,057)	(71,275)
Deferred policy acquisition costs	(140,221)	25,603
Unpaid claims recoverable from reinsurers	(114,651)	(15,269)
Reinsurers' share of unearned premiums	(231,853)	(168,076)
Accounts payable	(3,062)	94,906
Premium taxes payable	12,580	82,100
Deferred income taxes	37,471	100,980
Amounts due to reinsurers	(92,396)	(296,016)
Provision for unpaid claims	383,830	44,662
Unearned reinsurance commissions	79,022	55,893
Unearned premiums	392,341	317,314
	225,395	(76,218)
Cash provided by (used for) investing activities		
Purchases of investments	(663,378)	(2,189,613)
Proceeds on sale of investments	136,860	2,592,676
	(526,518)	403,063
Increase (decrease) in cash and cash equivalents	(301,123)	326,845
Cash and cash equivalents:		
Balance, beginning of year	877,283	550,438
Balance, end of year	$ 576,160	$ 877,283
Plus treasury bills greater than 91 days to maturity from acquisition date	—	—
Cash and treasury bills per statement of financial position	$ 576,160	$ 877,283

(see accompanying notes)

December 31, 1999

1. STATUS OF THE CORPORATION

SGI CANADA Insurance Services Ltd. (the Corporation) was incorporated July 18, 1990, under the *Business Corporations Act of Saskatchewan*. The Corporation holds a Saskatchewan provincial insurers' licence under the *Saskatchewan Insurance Act*. The Corporation is licensed to conduct business in Manitoba and Ontario.

Saskatchewan Government Insurance (SGI CANADA) owns 53% of the Corporation, and its financial results are included in the consolidated financial statements of SGI CANADA.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs
Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments
Bonds are recorded at amortized cost. Treasury bills are recorded at cost. Gains and losses on the sale of investments are recognized on the date of settlement.

The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies. The investment is recorded on the equity basis, whereby the carrying value of the investment is adjusted by the Corporation's share of the hail business earnings or losses and reduced by cash received.

Provision for unpaid claims
The provision for unpaid claims represents an estimate of the total cost of claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums
Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded
Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes
Income taxes are accounted for using the deferral method of income tax allocation. Deferred income taxes result mainly from differences between income reported for financial statement purposes and for tax purposes, relating principally to acquisition expenses, claim reserves, unearned premiums and amortization.

Cash and cash equivalents
Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

3. CASH AND TREASURY BILLS

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 5.2% (1998 – 4.9%). The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating agency.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	1999	1998
Due from brokers	$ 513,814	$ 524,266
Financed premiums receivable	689,749	561,976
Accrued investment income	112,991	102,368
Other	29,118	43,005
Total accounts receivable	$1,345,672	$1,231,615

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$ 5,499,125	$ 5,774,528	$ 5,040,265	$5,645,196
Investment in crop hail insurance business	3,493,354		3,254,486	
Total investments	$ 8,992,479		$ 8,294,751	

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of investment assets for corporate bonds and debentures and 25% for bonds and debentures issued by any one province. Also, a minimum of A is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	1999		1998	
Term to Maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$2,687,207	6.0%	$2,407,826	6.5%
After five	1,266,015	8.9%	1,272,262	8.9%
Canadian provincial:				
One or less	804,019	5.3%	-	-
After one through five	741,884	5.9%	1,360,177	6.4%
Total bonds & debentures	$5,499,125		$5,040,265	

6. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures all contracts of insurance with SGI CANADA, which limits the liability of the Corporation to a maximum amount of $50,000 on any one loss, and $500,000 on any one occurrence.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions and administrative expenses:

	1999	1998
Premiums earned	$3,474,871	$3,141,889
Claims incurred	1,757,860	1,811,729
Commissions and premium taxes	745,925	535,091
Administrative expenses	428,232	387,357

7. PROVISION FOR UNPAID CLAIMS

(i) Nature and variability of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date, and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled as all the necessary information may not be available at the balance sheet date.

There are a number of factors used to estimate the provision, such as the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency, such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risks that the actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims in 1999 and 1998 are as follows:

	1999	1998
Net unpaid claims - beginning of year	$647,419	$618,026
Payments made during the year relating to prior year claims	(413,000)	(417,000)
Excess relating to prior year estimated unpaid claims	(9,000)	(61,000)
Net unpaid claims for claims of prior years	$225,419	$140,026
Provision for claims occurring in the current year	691,179	507,393
Net unpaid claims - end of year	$916,598	$647,419

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by type of claim as follows:

	1999			1998		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Property	$1,746,949	$ 966,059	$780,890	$1,432,231	$ 857,364	$574,867
Liability	343,967	208,259	135,708	274,855	202,303	72,552
Total	$2,090,916	$1,174,318	$916,598	$1,707,086	$1,059,667	$647,419

8. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	1999	1998
Interest	$365,124	$ 387,299
Income from crop hail insurance business	238,868	688,929
Total investment earnings	$603,992	$1,076,228

9. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 46.12% to income before income taxes. The reasons for the differences are as follows:

	1999	1998
Computed tax expense	$103,803	$232,205
Increase (decrease) resulting from:		
Equity in crop hail insurance business	(74,909)	(216,046)
Other	8,576	84,821
Total income tax expense	$ 37,471	$100,980

10. SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of non-voting first preferred shares. At the end of 1999 and 1998 there were 1,200,100 common shares issued.

11. FAIR VALUE

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) cash and treasury bills
(b) accounts receivable
(c) accounts payable
(d) income taxes payable
(e) premium taxes payable
(f) amounts due to reinsurers

(ii) For bonds and debentures the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iii) Provision for unpaid claims and unpaid claims recoverable from reinsurers.

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 7).

12. RELATED PARTY TRANSACTIONS

SGI CANADA provides management and administrative services to the Corporation, as well as being the reinsurer (note 6). Administrative and claim adjusting expenses incurred by SGI CANADA and charged to the Corporation were $55,576 (1998 - $60,502) and accounts payable are $16,054 (1998 accounts payable - $14,394).

13. YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers or other third parties, have been fully resolved.

14. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 1998 balances have been reclassified to conform with the 1999 financial statement presentation.